Financial Inclusion and Role of Banks in India

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Abstract

One new paradigm for economic growth that has the potential to significantly reduce poverty in the nation is financial inclusion. It refers to providing financial services to a large population, including both rich and underprivileged individuals, at reasonable terms and circumstances. In terms of economic development and social progress, the country places a high focus on financial inclusion. It makes it possible to close the wealth divide in society. Financial institutions are the strong foundations of progress, economic growth, and economic development in the current situation. The current study intends to investigate the effects of financial inclusion on economic growth over a seven-year period. As the primary statistical tool, secondary data that has undergone multiple regression analysis is used. The study's findings revealed a positive and considerable influence of bank branch count and credit deposit ratio on country GDP, but a negligible impact of ATM expansion on Indian GDP.

Keywords: Financial inclusion; Banking sector; GDP; ATMs; Credit deposit ratio.

Introduction

Financial inclusion means the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluding. It takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc.The different financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. This aspect of financial inclusion is of vital importance in providing economic security to individuals and families. India is one country where the Financial Stability and Development Council (FSDC) have a specific mandate for financial inclusion and financial literacy. All of the financial industry regulators are represented on a separate Technical Group on Financial Inclusion and Financial Literacy that is under the purview of FSDC. A Deputy Governor from RBI will serve as the chairman of the Financial Inclusion Advisory Committee (FIAC), which has been established by the RBI to lead initiatives towards greater financial inclusion.

Review of literature

Dangi and Kumar (2013) examined the initiatives and policy measures taken by RBI and Government of India. This study also focused on current status and future prospects of financial inclusion in India. It has been concluded that financial inclusion shows progressive and valuable changes but sufficient provisions should be incorporate in the business model to certify that the poor are not driven away from banking.

Suryanarayana (2008) focused on definition of inclusion/exclusion with reference to an outcome scenario for broad-based growth as reflected in estimates of production, income, and consumption distribution. The study helps in drawing a sketch of occupational, social, regional profiles of the excluded in the mainstream growth process. Hence researcher made an attempt to provide a perspective, a measure of inclusion, and finally an evaluation based on the available estimates of consumption distribution for the year 2004–2005 for India.

Agrawal (2008) studied the financial inclusion from the behavioural perspective based on both factors supply and demand end. Results revealed that evaluation from the behavioural perspective provided the scope for the policy-makers and marketers to strategically align their approach with the behavioural aspect, without confining their thoughts to the economical evaluations.

Mukherjee and Chakraborty (2012) studied the role and efficiency of the commercial banks in Jharkhand state with their capacity and role of institutions like regional rural banks (RRBs), self-help groups (SHGs), non-banking financial companies (NBFCs) for the purpose of promoting financial inclusion. The results of analysis shown that banks were not able to achieve the desired aims and study suggested that every bank should reports to the RBI on its achievement on financial inclusion more frequently.

Uma and Rupa (2013) made an attempt to examine the role of SHGs in financial inclusion and reflected the positive relationship between SHGs membership and financial inclu- sion. The study revealed that after the membership to SHGs there was increase in the number of bank accounts, credit availed by the members and annual repayment of the loan also shown positive trend.

Joseph and Varghese (2014) analyzed the effect of financial inclusion on the development of Indian economy by bank growth rate in terms of number of bank branches, usage of debit card and credit cards. It has been observed that the usage of debit cards increased tremendously throughout the study period and decreased the number of people with access to the products and services offered by the banking system continues to be very limited, even years after introduction of inclusive banking initiatives in the country.

Research Gap

Financial inclusion is an important step towards inclusive growth. It helps in the overall economic development of the underprivileged population. In India effective financial inclusion is needed for upliftment of the poor and disadvantaged people by providing them the modified

financial products and services. This leads to inclusive growth encompassing the deprived and marginalized sections. Some studies are done on the financial inclusion by analyzing selected banks and other work has been found on state wise growth of financial inclusion. A few studies have been analyzed the impact of financial inclusion on Indian economic growth and found mixed results. With this backdrop, this research study is an attempt to find out the present scenario of financial inclusion in India and assessing the role of financial inclusion in economic growth of the country.

Objectives of the Study

- To examine present scenario of financial inclusion in India.
- To investigate the major factors affecting access to financial services.
- To study the impact of financial inclusion indicators on growth of Indian economy.

Research methodology

This study is based on secondary data that was mainly collected from Report of RBI, Ministry of Finance, Government of India, Reports on trend and progress of banking in India, Newspapers, Research Articles, Research Journals, E-Journals, Books and Magazines. Various websites were also used like RBI, Ministry of Finance, and Government of India (GoI). The period under consideration for the study is seven years from 2007–2008 to 2013–2014. Data has been analyzed by applying multiple regression as a main statistical tool. Multiple regression analysis has been used to establish an empirical relationship between Financial Inclusion and growth of the country. The present study taking Gross Domestic Product (GDP) as a dependent variable and independent variables are Number of Bank Branches in the country, ATMs growth rate across the country and Credit deposit ratio.

$Y = b0 + b1X1 + b2X2 + b3X3 + e$

where Y = Gross Domestic Product (GDP)

X1 = Number of Bank Branches

X2 = ATMs growth rate

X3 = Credit deposit ratio

Financial inclusion and Indian banking network

The RBI has encouraged banks to implement a planned and structured Financial Inclusion Plans (FIPs) for the growth and development of the country. The first phase of FIPs was covered a time period of three years which has started from 2010 and ends in 2013. FIPs have been used by Reserve Bank of India (RBI) for measuring the banks performance under their FI initiatives. Table 1 display that a large number of bank accounts have been opened during this period and shaped a big banking network across the country. Despite, the results of first FIP witnessed that there has been insignificant improvement operations in terms of transactions. Hence, banks were instructed to draw up new three-year FIP from 2013 to 2016 for ensuring meaningful access of financial services.

A snapshot of the performance of banks under FIP up to March 31, 2014 is:

Table 1

Financial inclusion plan and its performance evaluation.

Sr. No.	Variable	2010	2013	2014	Change (2013–2014)
1	Banking Outlets in Villages – Branches	33,378	40,837	46,126	5289
2	Banking Outlets in Villages – Branchless Mode	34,316	227,617	337,678	110,061
3	Banking Outlets in Villages – Total	67,694	268,454	383,804	115,350
4	Urban Locations covered through BCs	447	27,143	60,730	33,587
5	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in millions)	60.2	101	126	25.2
6	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in Rs. billion)	44.3	165	273	108
7	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in millions)	13.3	81	117	35.7
8	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in Rs. billion)	10.7	18	39	20.7
9	BSBDA Total (in million)	73.5	182	243	60.9
10	BSBDA Total (Amt. in Rs. billion)	55.0	183	312	129
11	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	0.2	4	6	2
12	OD facility availed in Basic Savings Bank Deposit Account (Amt. in Rs. billion)	0.1	2	16	14.5
13	KCCs-Total (No. in million)	24.3	34	40	6.2
14	KCCs-Total (Amt. in Rs. billion)	1240.1	2623	3684	1061.0
15	GCC-Total (No. in millions)	1.4	4	7	3.8
16	GCC-Total (Amt. in Rs. billion)	35.1	76	1097	1021.0
17	ICT A/Cs-BC Total Transactions (No. in	26.5	250	329	79

	million) during the year				
18	ICT A/Cs-BC Total Transactions (Amt. in Rs. billion) during the year	6.9	234	524	290

Source: Based on different issues of Reserve Bank of India (RBI).

Conclusion

In developing economies like India, the banks work as mobilizers of savings and allocators of credit for production and investment, have a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them (Chakrabarty, 2013). Financial access can really boost the financial condition and standards of life of the poor and the disadvantaged population of the country. Lack of accessible, affordable and appropriate financial services has always been an Indian problem and effective inclusive financial system is needed for economic growth of the country. Reserve bank of India (RBI) and government plays an important role in promoting financial inclusion for economic growth to increase the banking penetration, installation of new ATMs and implementation of various schemes in the country (Raman, 2012). The Reserve Bank has used FIPs to gauge the performance of banks under their financial inclusion initiatives. During the first phase of FIPs 2010–2013 a large number of bank accounts have been opened. However, it has been observed that the accounts opened and the banking infrastructure created has not seen substantial operations in terms of transactions. RBI has been applied a fresh three-year FIPs during 2013–2016 for ensuring meaningful access to banking services to the excluded population. The new FIP is now more focused on the volume of transactions which plays an important role in growth and development of the India. The most robust relationship is observed among financial inclusion and economic growth of the country (Julie, 2013). The present study found the positive significant impact of number of bank branches and credit deposit ratio of banks (proxies of financial inclusion) on GDP of the country. Whereas one indicator of financial inclusion, ATMs growth rate has been shown a statistically insignificant impact on Indian GDP. Hence, the study observed that financial inclusion is strongly associated with the progress and development of the economy. In spite of this there should be a need for proper financial inclusion regulation in the country to access financial services and customer awareness E-banking training and financial literacy programmes should be organized. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

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